



Minerals Revenue Management

For a relatively small Federal agency, the Minerals Management Service (MMS) is responsible for a very important service for the American people – securing economic value from energy resources from federal offshore and onshore leases. Offshore lease operators pay a royalty for all oil and gas taken from federally submerged lands. In turn, that money finds its way into communities across the country.

The Minerals Revenue Management (MRM) program, the financial arm of the Minerals Management Service, is charged with collecting, accounting for and disbursing revenues from minerals produced on Federal and Indian lands. Revenues collected by the agency are one of the largest sources of non-tax revenue to the Federal government. MRM also conducts a comprehensive compliance program to ensure that fair market value is received for the mineral assets and that royalties are timely and accurately paid.

In fiscal year 2004, MRM collected over \$8 billion in federal and Indian mineral lease revenues, plus \$1.2 billion worth of oil for the Strategic Petroleum Reserve (SPR). These substantial revenues are disbursed to 36 states, 41 tribes, some 30,000 individual Indian mineral owners and U.S. Treasury accounts.

Since the program's inception in 1982, MRM has collected and disbursed over \$143 billion to recipients. Over 60 percent of total annual collections go directly to the U.S. Treasury. Another 23 percent goes to special purpose funds such as the Land and Water Conservation Fund (about \$1 billion a year), the National Historic Preservation Fund, and the Reclamation Fund. Revenues are shared with states where energy

production occurs, providing critical funding for education and other needs.


Hike through a national park, and chances are some of the money used to maintain that park comes from the Land and Water Conservation Fund.

Preserving a nation's historic treasures is essential to enhancing its culture. Through the National Historic Preservation Fund, historic buildings and landscapes are preserved. About \$150 million from offshore oil and gas revenues goes into that fund each year.

For residents in Western states, mineral revenue receipts fund a significant portion of the U.S. Bureau of Reclamation's water resource development and maintenance work in those regions.

To provide the best service for the American taxpayer, MRM has four primary missions:

1. **MRM Financial Management.** This ensures timely and accurate collection of all Federal and Indian mineral revenues from over 24,000 producing Federal leases and 3,700 producing Indian leases. Once all revenues are accounted for, they are disbursed to recipients.
2. **Royalty-in-Kind (RIK).** The RIK office is introducing the first Federal RIK program as an alternative business approach for managing oil and gas royalties in a manner which optimizes returns for the taxpayer while reducing administrative costs of this management activity. Taking royalties-in-kind is not a new concept. It is the oldest form of royalty payment and today the MMS



is using the concept of in-kind, rather than cash payments, when circumstances prove cost effective for government and industry.

In cases where MMS deems it appropriate, MMS may take the resource delivered as royalty-in-kind, sell it in the marketplace, and disburse the resulting revenues as provided by law. The MMS also provides oil to the Department of Energy to fill the Strategic Petroleum Reserve (SPR).

The RIK program has a demonstrated success record. Currently, about 108 million barrels of crude oil are being transferred to the SPR in support of this important national security initiative. In 2004, MMS delivered 38.5 million barrels of oil to the SPR at an estimated value of \$1.2 billion. In addition, selective use of RIK in an asset management strategy has consistently shown increases of one to three percent over a comparable royalty-in-value program.

3. **Compliance and Asset Management (CAM).** Random audits and special reviews of mineral lessees and payors are conducted to detect and collect royalty underpayments. The program also administers audit agreements with 11 state governments and nine Indian tribes. The MRM audit and compliance activities have yielded \$2.5 billion in additional mineral revenues since the program's inception in 1982.
4. **Indian Trust.** The agency places a high priority on fulfilling its responsibilities in this area and serves as an advocate for the special interests of individual Indian mineral owners. The MRM spends over 20 percent of its resources on managing Indian mineral revenues that account for 5 percent of total revenues.